



The Real Estate ANALYST

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Roy Wenzlick
Editor

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends...Constantly measuring and reporting the basic economic factors responsible for changes in trends and values.....Current Studies..... Surveys.....Forecasts

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

VOLUME XIII

WHEN you subscribed to the Real Estate Analyst, I assumed you wanted our measurements of changing trends affecting real estate and our opinion of what seemed most likely to develop. I am not interested in publishing reports which can be used by over-enthusiastic salesmen to sell reluctant buyers, although I realize that from time to time some of our reports contain the type of information which can honestly be used by intelligent salesmen to sell intelligent prospects. To me this is merely an incidental use of our material.

A man engaging in the forecasting business must view his job in the same light as any other honest research worker. He must cultivate a totally detached attitude. He must be interested primarily in securing the right answer regardless of what that answer may be. He must never do "wishful thinking" nor must he ever be a propagandist attempting to fit the facts to opinions which he knows will make pleasant and acceptable reading to his clients.

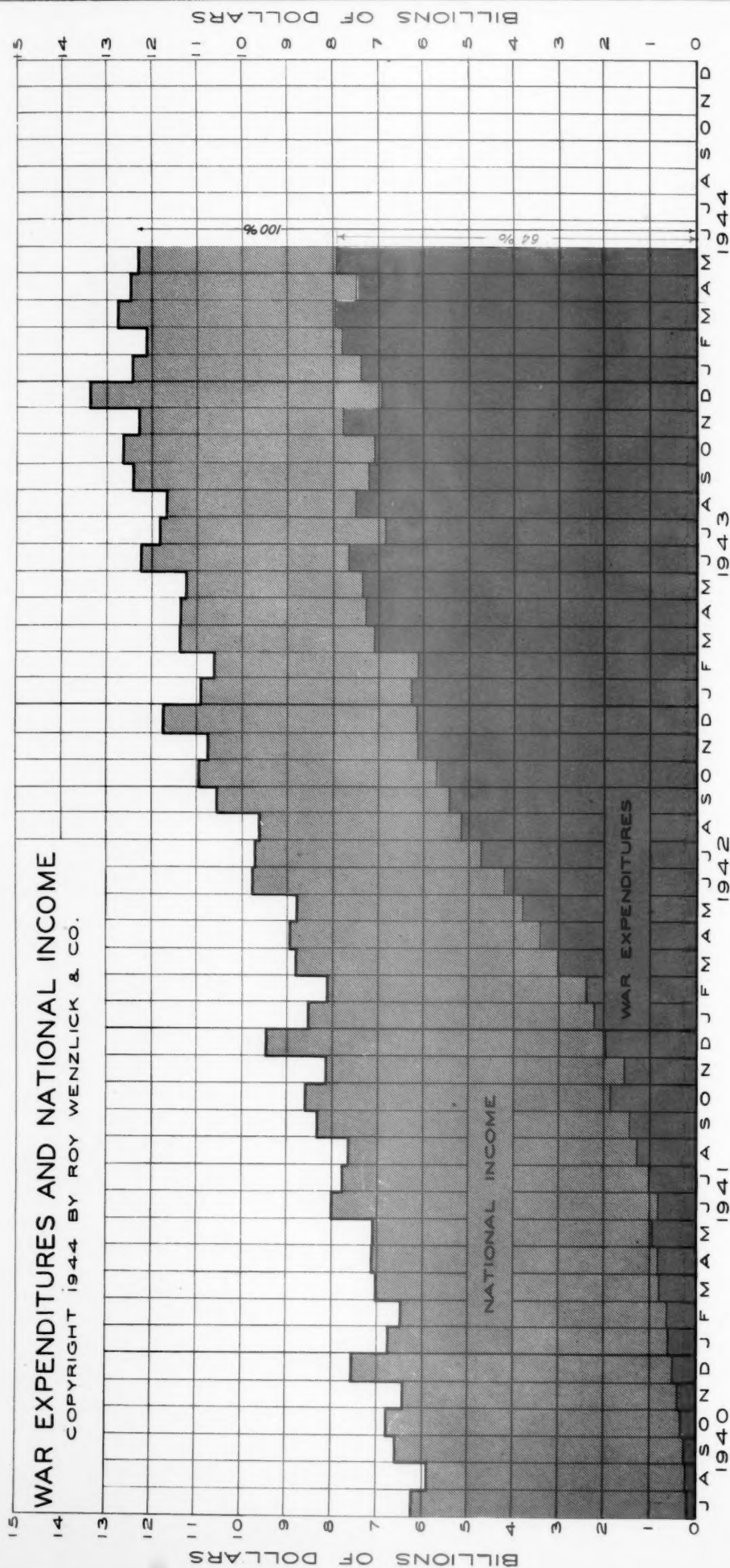
From time to time I find it necessary to forecast events or trends which are not at all in accord with developments I would like to see. I frequently get letters in regard to these forecasts maintaining that I am not "helping the cause along by such statements and conclusions." One client recently said, "I certainly do not believe in making statements that weaken the cause in any respect." From his standpoint as an active member of society trying to bring about a condition which he believes beneficial, I would agree with him, but a man who is being paid to analyze facts and trends must not allow himself to become a propagandist. His motto should be the statement of Emerson, "Nothing is at last sacred but the integrity of your own mind."

The job of forecasting during the past few years has been pleasant, as most of the trends have been up. This was not the case in the early thirties nor will it be the case in the late forties. In March 1933, I wrote, "During the past twelve months the Real Estate Analyst has consistently refused to be stampeded into an optimistic position. It has been criticized for the pessimism of its forecasts. It has constantly felt that conditions must get worse before they could get better. . . . It seems to us that Pollyanna optimism, predicting the dawn by misreading the clock, is of little value."

I can assure you, our clients, that when the measurement of fundamental trends convinces me that real estate faces trouble I will make no attempt to bolster a falling market, even though I may frequently be accused of helping to push it down.

WAR EXPENDITURES AND NATIONAL INCOME

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THE chart above shows the total national income of the United States by months from 1940 to the present in contrast with the total war expenditures by months over the same period. At the present time war expenditures are running 64% of the national income.

Under ordinary circumstances the national income is used in the purchase of commodities, services, and in savings. Since the greater part of the nation-

al effort at the present time is being spent on the war, insufficient goods and services are available to take up, at ceiling prices, the national income paid out. So long as the war lasts in Europe, it will be possible to maintain some sort of rationing and price control. After that we believe that black markets will increase to the point where rationing and price control will be relatively ineffective, unless a depression of considerable severity develops which will discourage spending.

FEDERAL PUBLIC DEBT

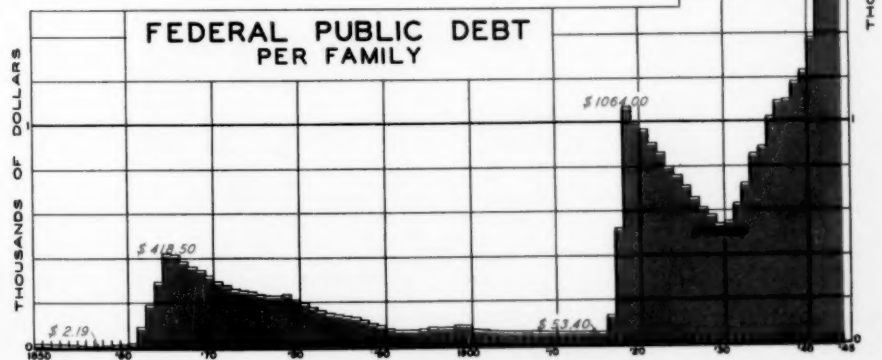
WE have always avoided if we could, the use in our reports of figures in billions of dollars as these figures are incomprehensible to the average person. The chart below shows the Federal public debt of the United States expressed as the average Federal public debt per family. At the present time it has reached \$5,500; to this must be added the public debts of city, county, and state. In most communities, these additions would bring the total above \$6,000 per family.

In view of the fact that many families in the United States have income producing capacities only sufficient to earn a bare existence this figure becomes quite alarming. If we concede the viewpoint of the New Deal, that the lowest third of our population are underhoused, underfed, and underclothed, with Federal subsidies necessary to bring them up to a minimum standard, the situation becomes still more alarming.

The lowest point reached in the Federal public debt per family since 1850 was in 1857 when it amounted to only \$2.19. As a result of the Civil War a peak was reached in 1865 of \$418.50. This amount was steadily reduced until 1915 when the average federal public debt per family was \$53.40. As a result of the First World War the debt climbed to a peak of \$1,064 in 1919. It then started a long decline to \$541 in 1930. Before the Second World War started in 1939 the average public debt per family in the United States was greater than it had been at the peak of the First World War, in spite of the fact that at the time we were spending a smaller percentage of national income on our army and navy than we had at any time since the First World War ended. This increase in the national debt was due entirely to the depression and to the New Deal efforts "to spend our way out of it." The fact that we still had 10 million unemployed at the time that the Second World War started is the only proof necessary of the fallaciousness of the idea that permanent prosperity can be brought about by reckless government spending and subsidies.

There is a school of economists very popular with the New Deal which maintains that a large Federal public debt is of relatively slight importance as we owe it to ourselves. We have never been convinced by the arguments of this group. We still believe that this debt is highly inflationary, and will be carried by reducing its purchasing equivalent through a depreciated dollar with a higher price level.

Over a period of years real estate and all other capital assets increase in dollar value as the purchasing power of the dollar decreases. In some communities these changes will take much longer than in others.



RESIDENTIAL BUILDING COSTS IN 80 CITIES

PRACTICALLY no building is taking place in the United States, nor will any volume develop for some time after the end of the war in Europe. In spite of this, however, construction cost levels are of fundamental importance to the real estate speculator and the mortgage lender. If existing houses can be duplicated as soon as men and materials are available, at a lower cost than the sales price of houses already built, values on existing buildings will drop until sufficient incentive exists to buy these buildings rather than the more modern new ones which will be built in competition.

On the other hand, if building costs are higher in the post-war period, very little building will take place until rents and values on existing buildings have risen to the point where a new building can be built in competition. Higher construction costs will have a very stimulating effect on the market, in so far as the owner of existing property is concerned. Lower construction costs would bring about heavy foreclosures and be quite stimulating to the construction industry.

The charts on pages 218 to 224 in this report show for eighty cities the cost of building a typical building from 1936 to the present time. These figures are computed from data compiled by the Federal Home Loan Bank Administration, and by Roy Wenzlick and Company. A house that fits the specifications used in each city is pictured on the spread. Cost figures on the construction cost of this house built in St. Louis are available for 31 years.

The house pictured is a six-room frame dwelling. The design is simple and efficient. The interior arrangement can be considered fair, and the construction is average in quality. The plans and specifications call for concrete foundations, concrete basement and garage floors; concrete slabs for front and rear stoops; frame exterior walls with $\frac{3}{4}$ " x 10" redwood siding, with stucco gable ends; three coat plaster walls; oak flooring; pine B & B trim; 1 $\frac{3}{8}$ " six panel #1 pine doors; tile wainscot and floors in bathroom and lavatory; two kitchen cabinets; 266 lbs. asphalt shingle roof with copper gutters and downspouts; modern bathroom fixtures; hot water heat; modern electrical installation; insulation in exterior walls and second floor ceiling. The house is not completed ready for occupancy; it includes all fundamental structural elements, an attached one-car garage, an unfinished cellar and an unfinished attic. It does not include wallpaper nor other wall or ceiling finish on interior plastered surfaces, lighting fixtures, refrigerators, water heaters, ranges, screens, weather stripping, nor window shades. The cost of the land is not included nor surveying the land, the cost of planting the lot nor of providing walks and driveways. The architect's fee is not included, nor is the cost of a building permit, the financing charges, or the sales cost.

In the thirty-one years for which these figures are available for the St. Louis house many changes have necessarily been made in the specifications from time to time. Copper guttering, downspouts and flashing have been in and out several times because of the first and second World Wars. Whenever any material was unavailable the best substitute obtainable was figured.

The house pictured would probably not be of an acceptable type for actual construction in all of the cities listed. The specifications have been held the same, however, in all cities, as it is the only way in which a comparison can be made between the various communities. As an indication of actual

building costs certain deductions must be made in southern cities. The primary purpose of this series is to show the relative fluctuations in the various cities since 1936.

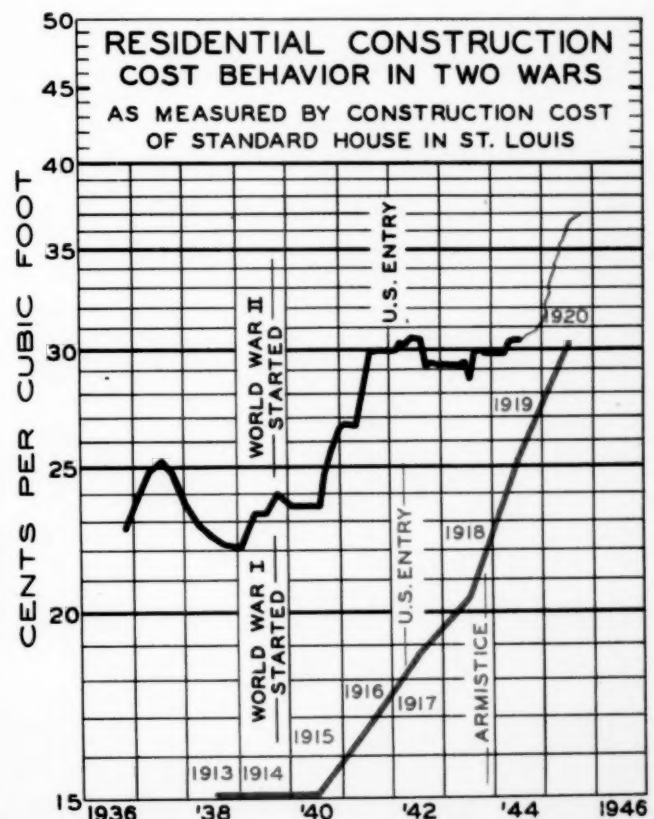
The construction costs as charted on pages 218 to 224 in this report represent at the present time more or less of a theoretical cost, as insufficient building is taking place to know what it would cost were an average volume permitted. The labor costs used at the present time are much lower than they would be if building were active, probably by as much as from 15% to 25%; however, the shortage of labor is a temporary phenomenon and the increase in construction costs due to this shortage, were it possible to compute it, would disappear as soon as the emergency is over. We believe the figures as given here represent more nearly the levels which should be used in figuring replacement costs for appraisals than some value based entirely on a temporary scarcity of labor.

The chart below shows the behavior of residential construction costs in St. Louis as measured by the cost of constructing our standard house. The blue line on this chart shows the fluctuation of the cost in cents per cubic foot from 1936 to the present. The red line on the chart shows the similar figures for the period from 1913 through 1920.

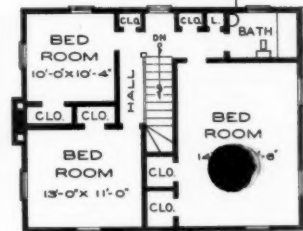
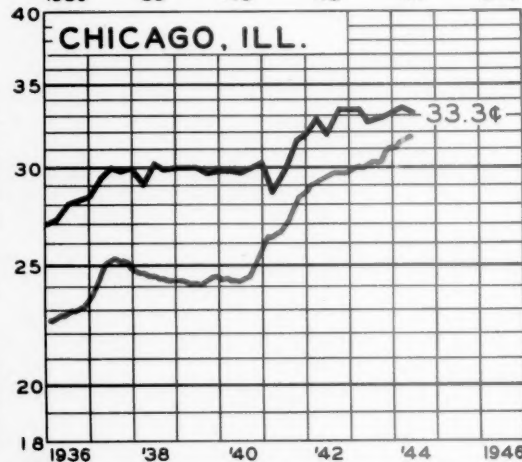
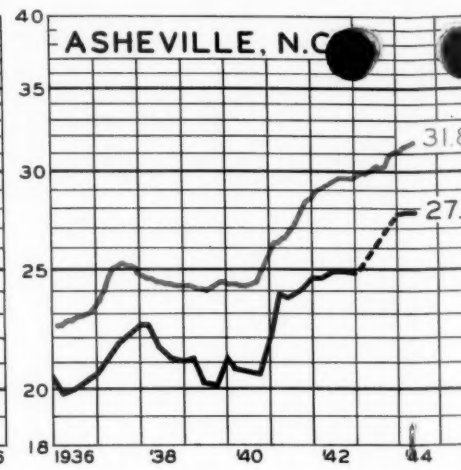
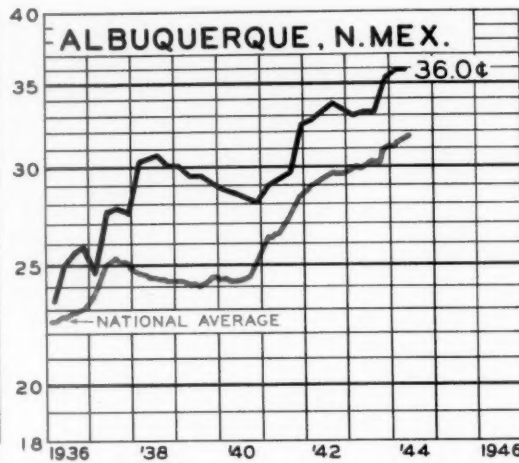
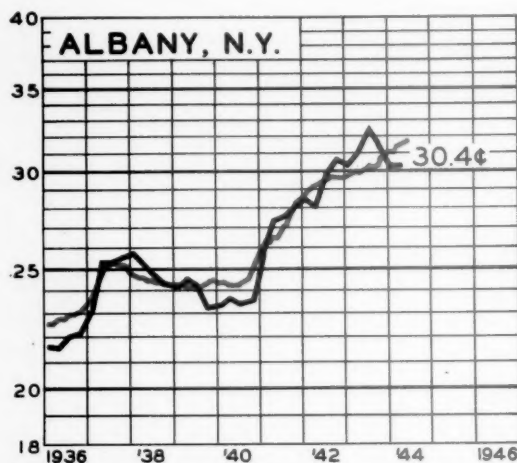
It is quite apparent from this chart that the rise in the First World War period from the beginning of the war to the United States entry was slightly greater than it has been in World War Two and the rise from the United States entry to the Armistice was also very slightly greater than the rise has been from our entry into the war up to the present time.

This chart clearly indicates, however, that the major rises in construction costs did not occur during the First World War, but in the period that followed. If the same rise occurs again, and we rather doubt whether it will, there would be practically no new building until rents and values became adjusted to this new level.

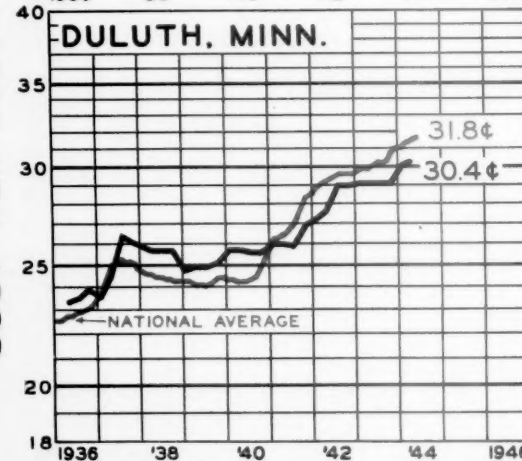
Our guess is that construction costs will rise further in the post-war period, but we believe that an effort at control will spread this rise over a longer period of time. If a rapid rise in construction costs could be prevented at the close of the war, and if rents on existing properties were allowed to rise during this period, a building would be worth what it cost to build and new building would get rapidly under way providing considerable employment in the first period. We think that this course of events is not likely. Rent control may continue effectively in the very early post-war period while price control will break down with the cost of building continuing to rise.



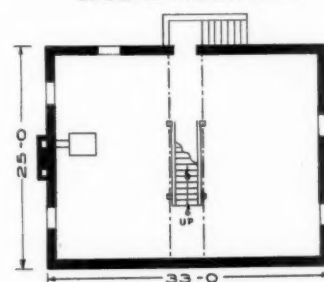
COST PER CUBIC FOOT IN CENTS



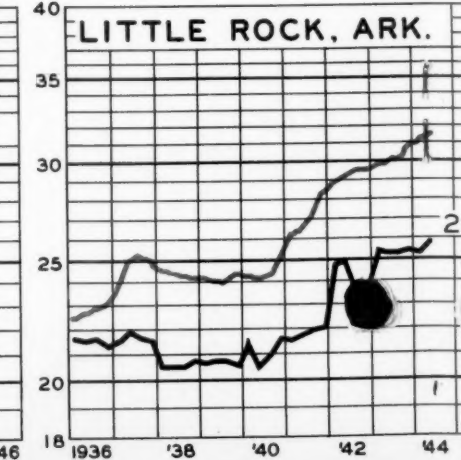
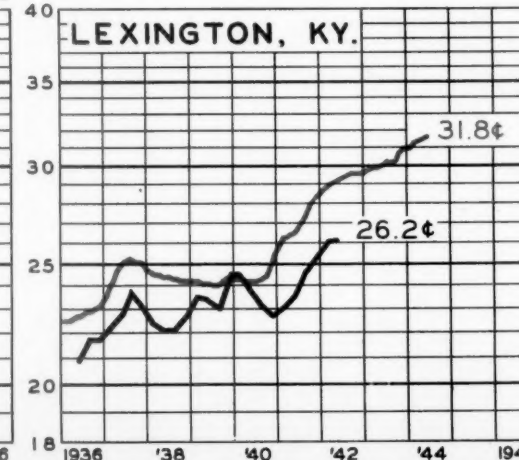
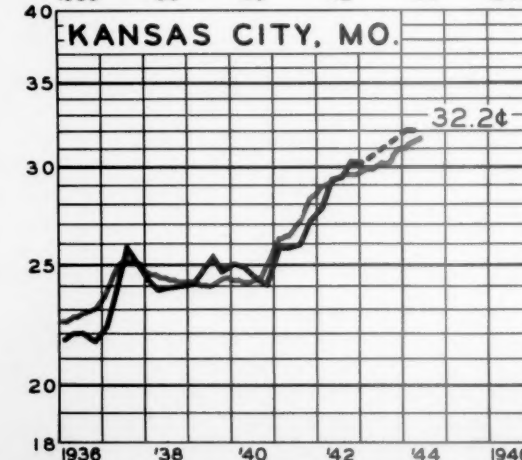
SECOND FLOOR PLAN



FIRST FLOOR PLAN

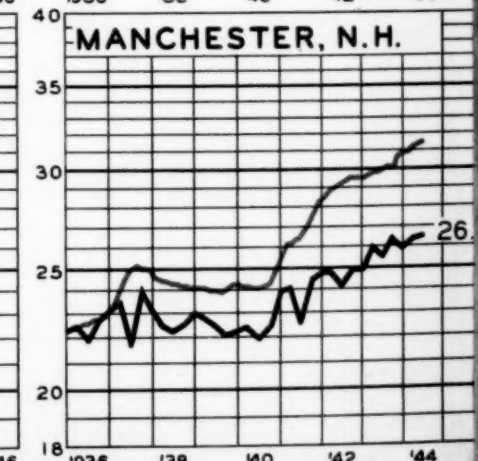
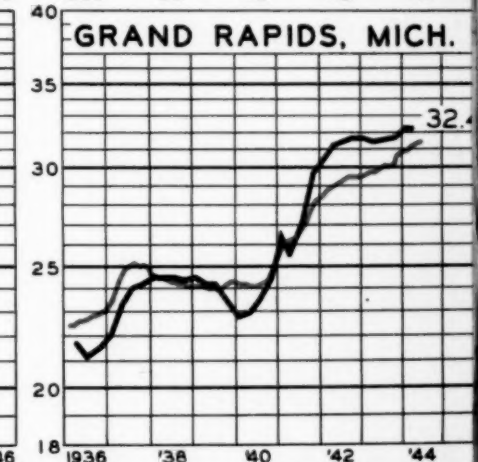
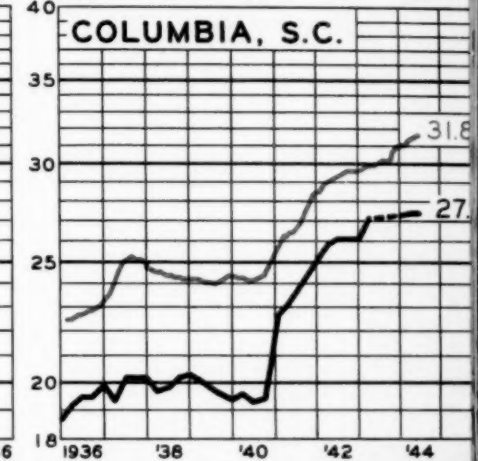
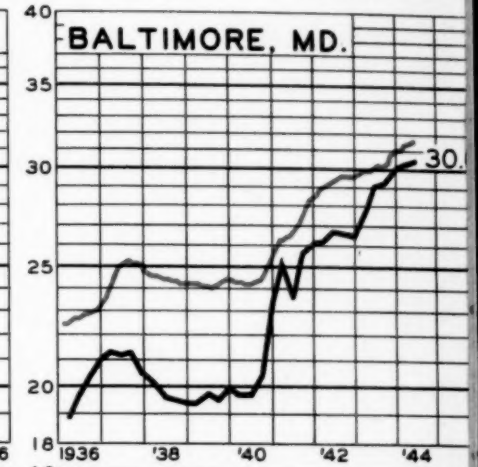
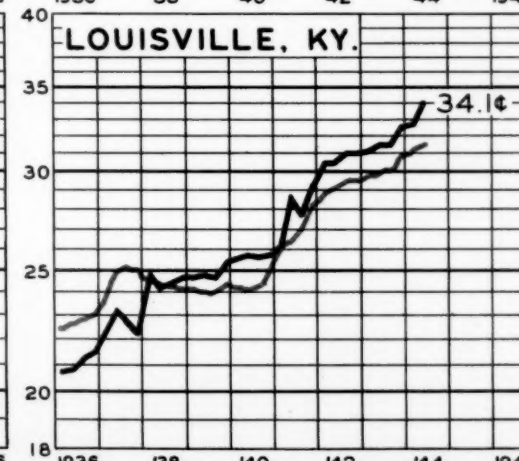
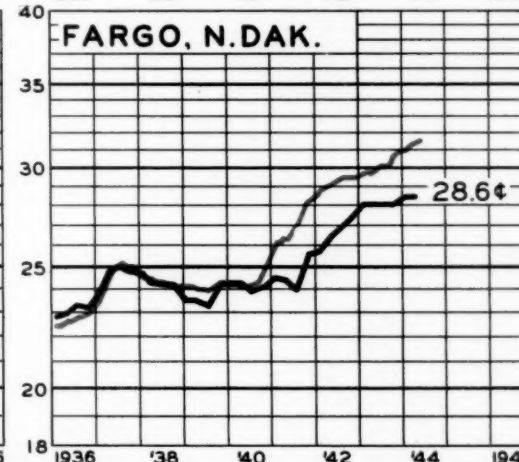
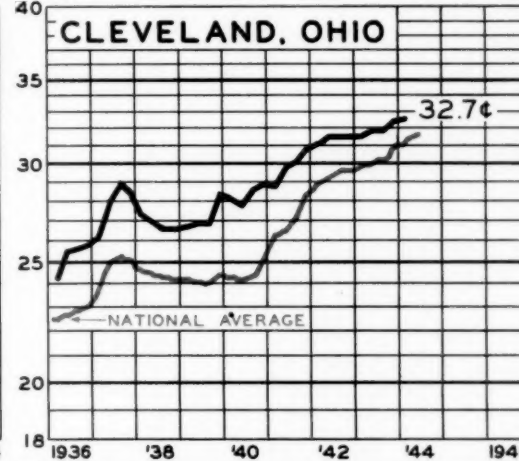
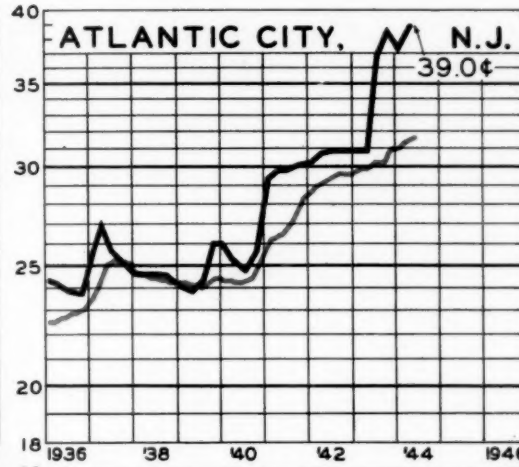
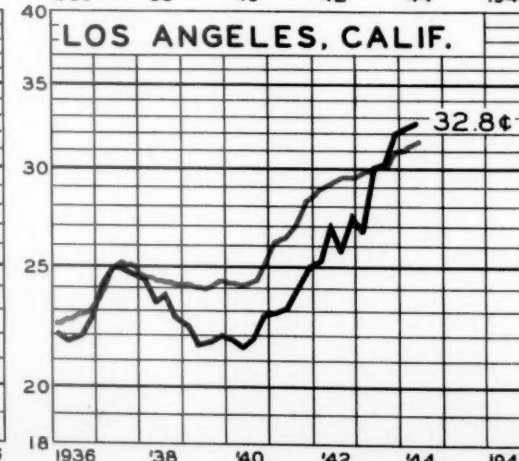
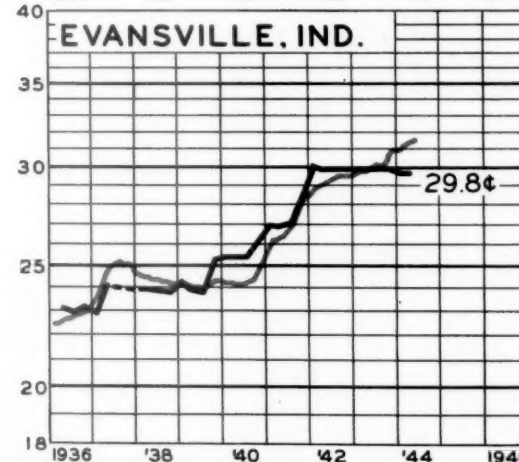
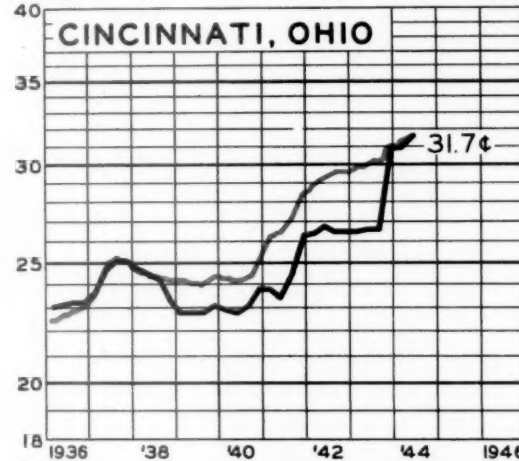
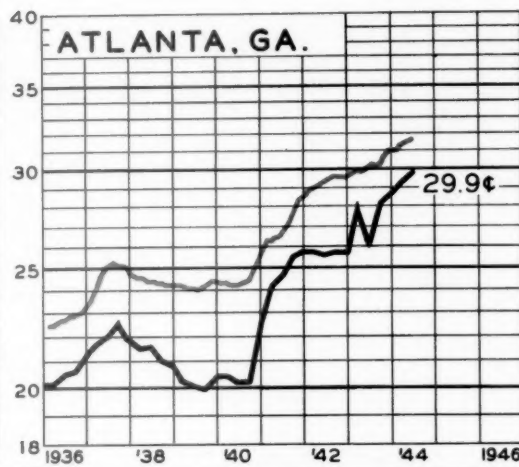
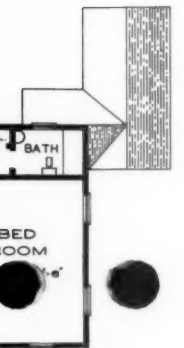
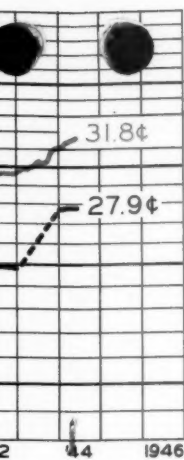


BASEMENT PLAN



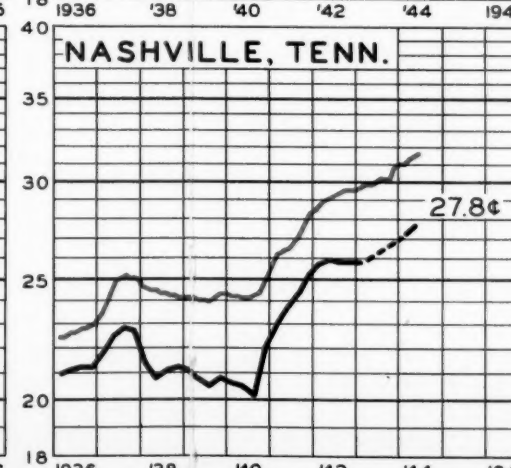
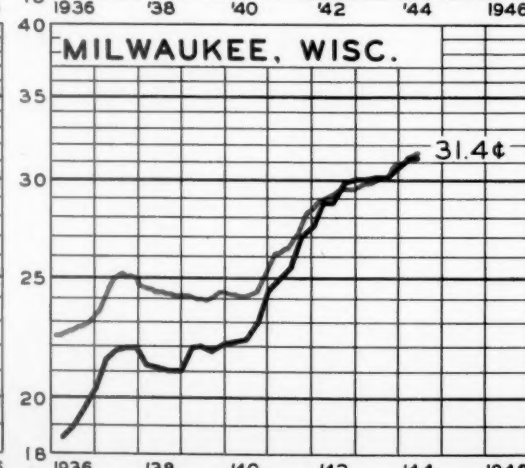
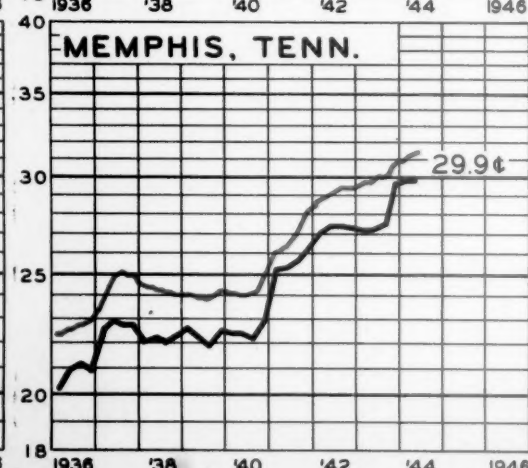
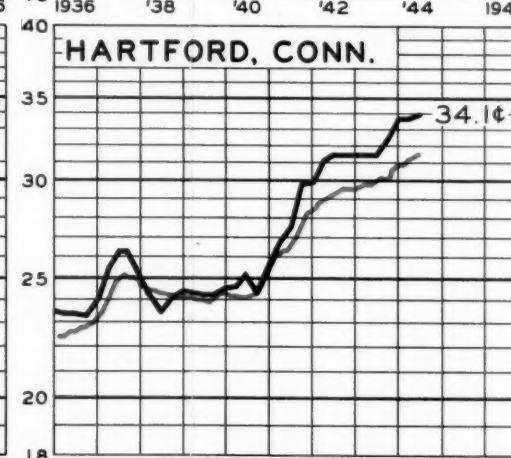
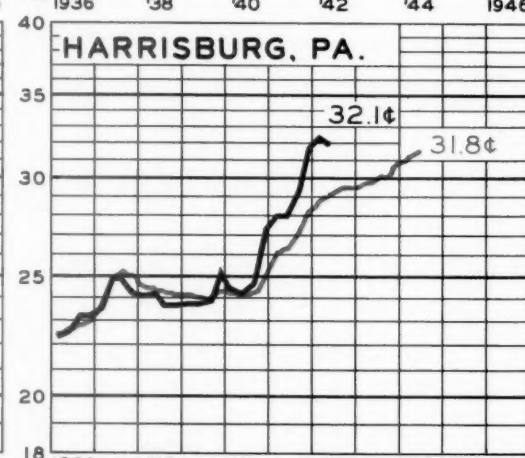
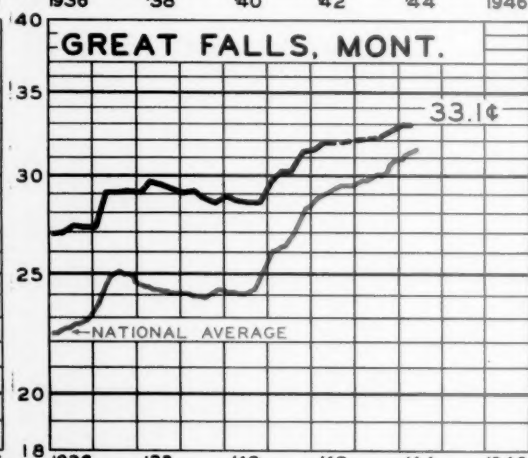
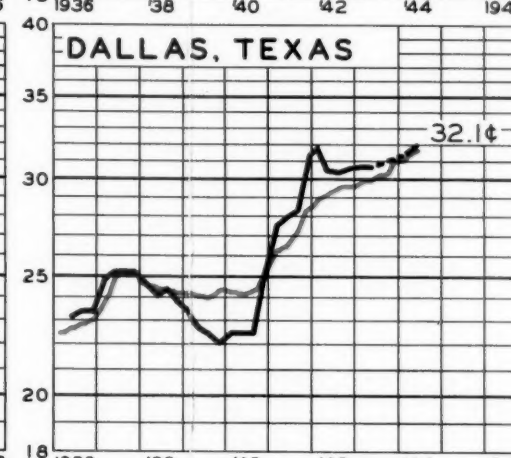
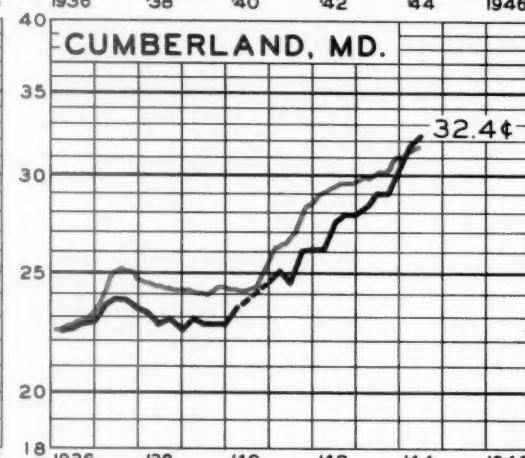
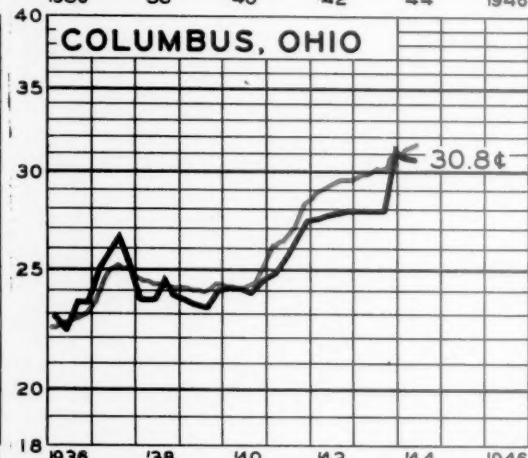
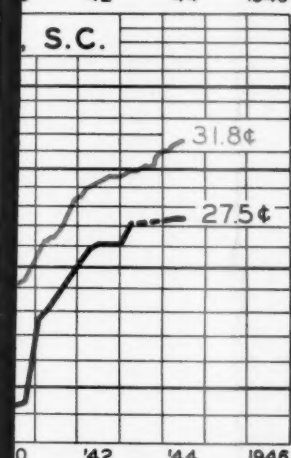
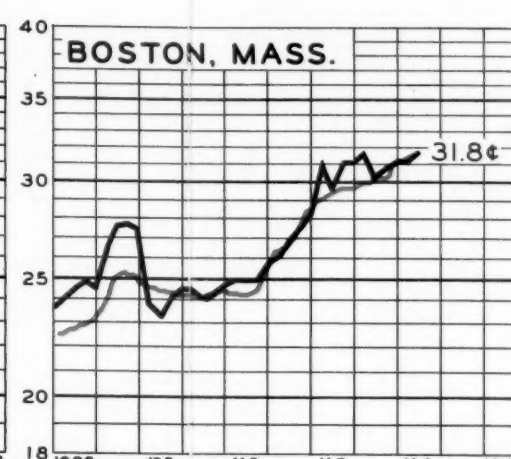
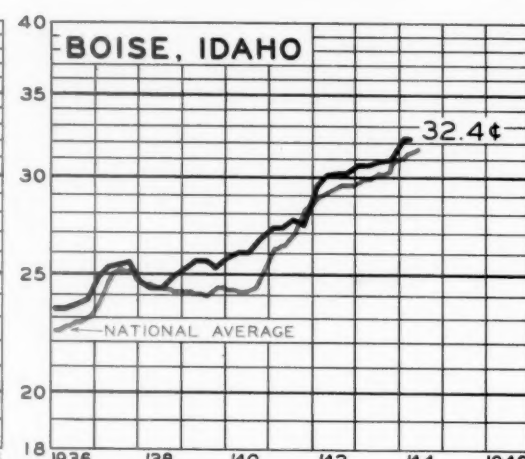
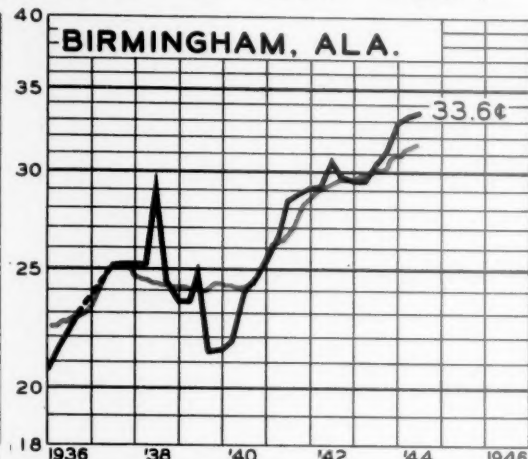
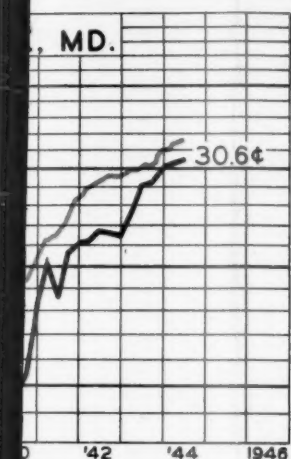
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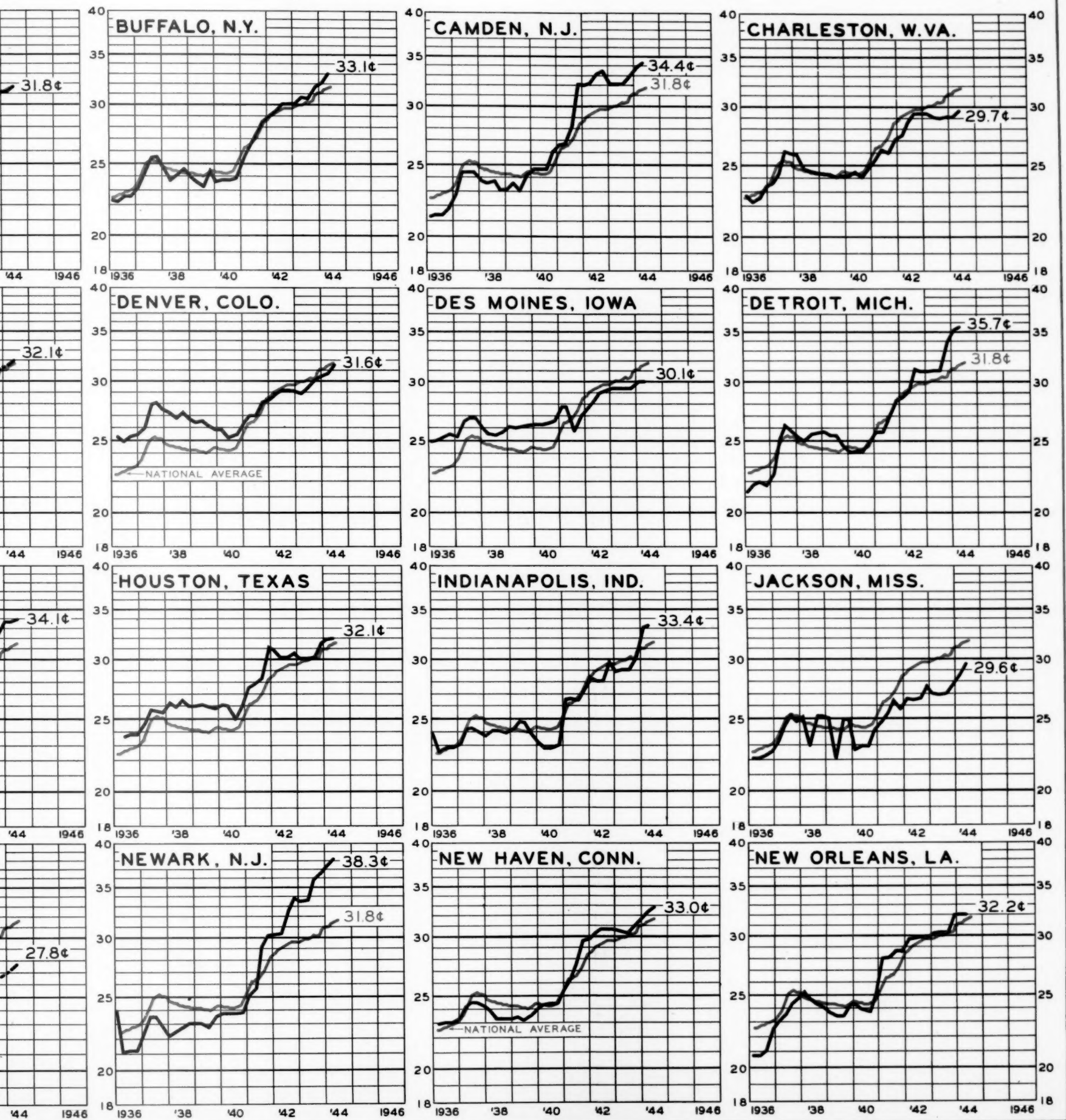
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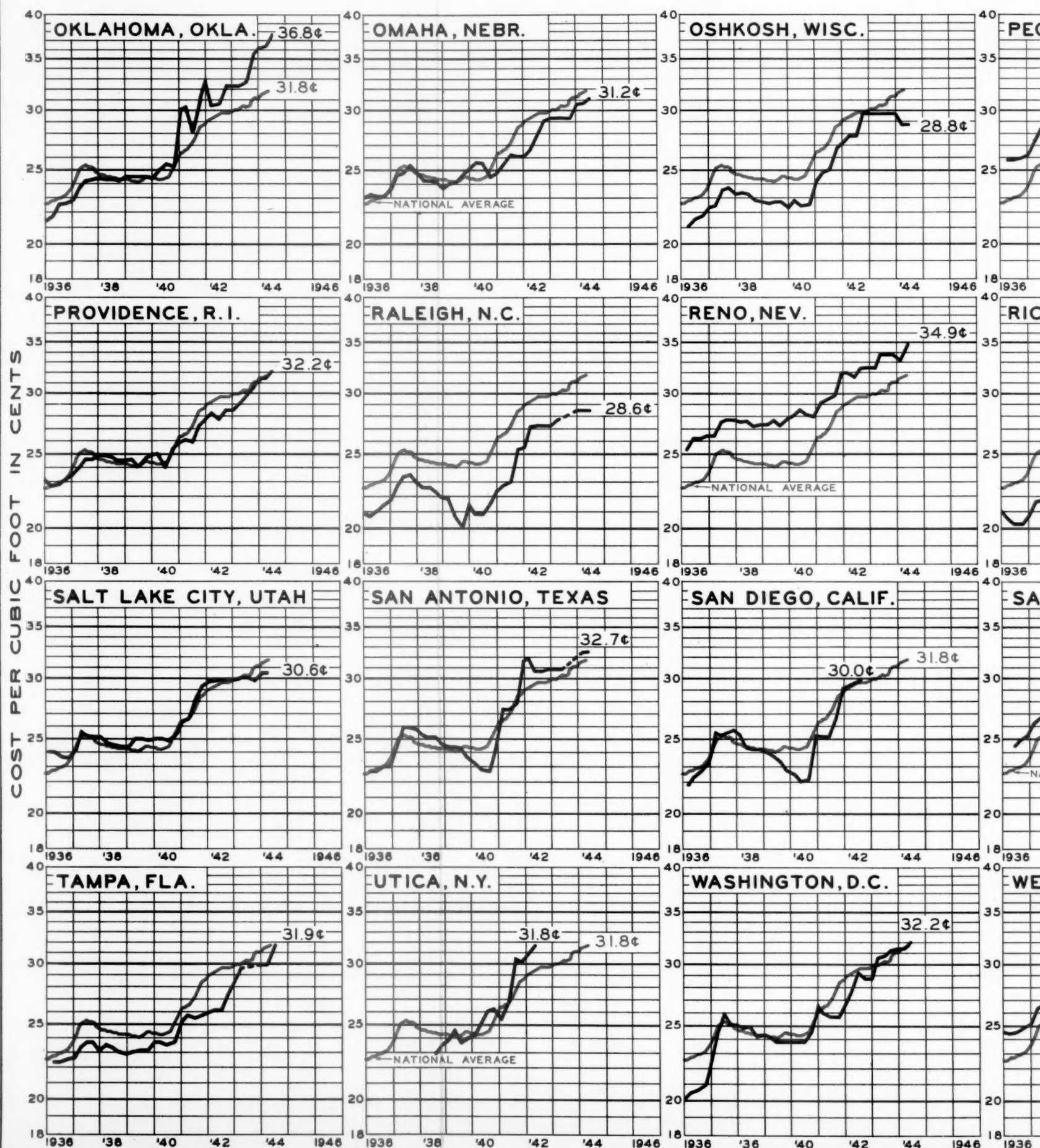
ON COSTS PER CUBIC FOOT IN 80 CITIES

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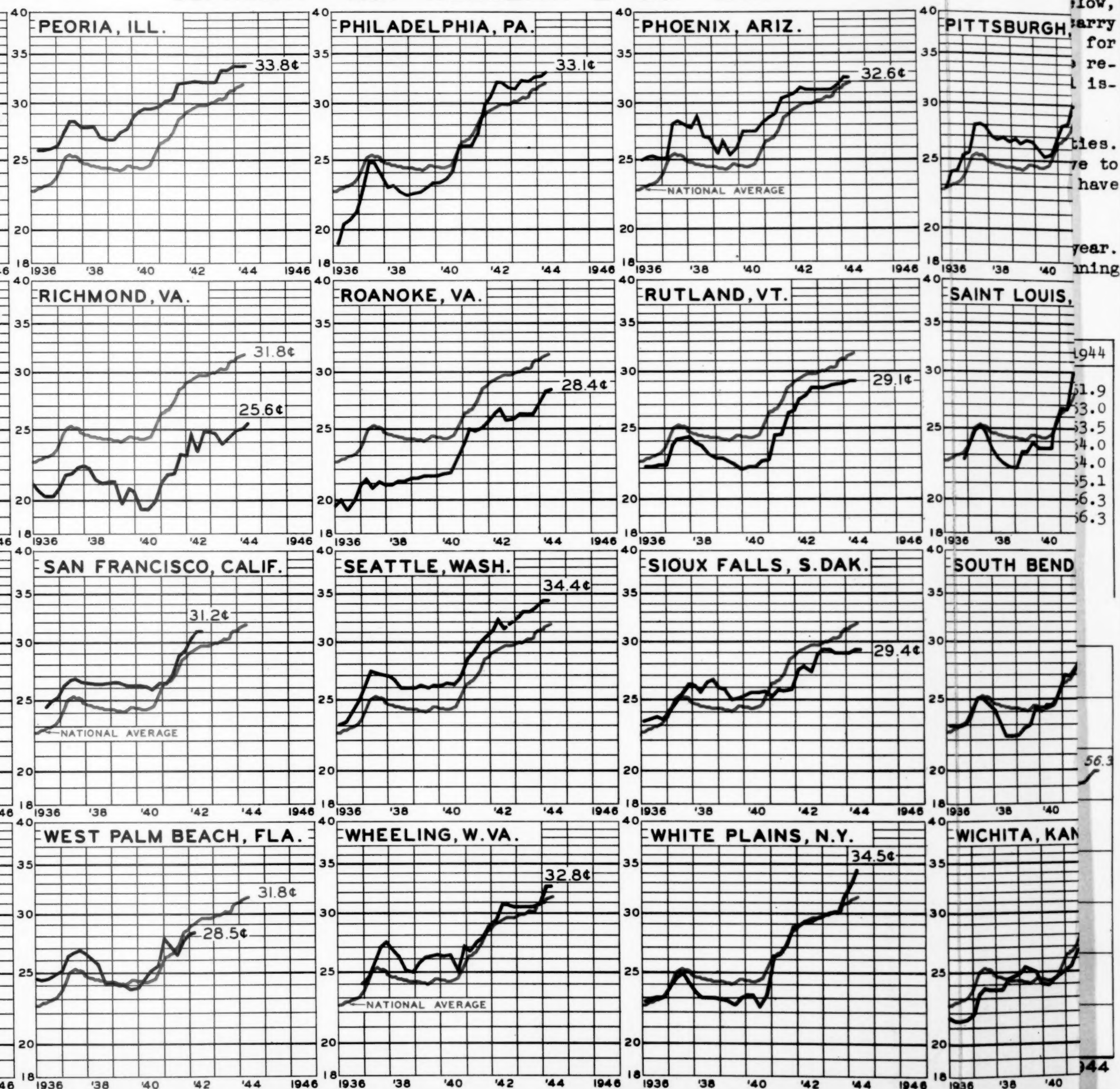


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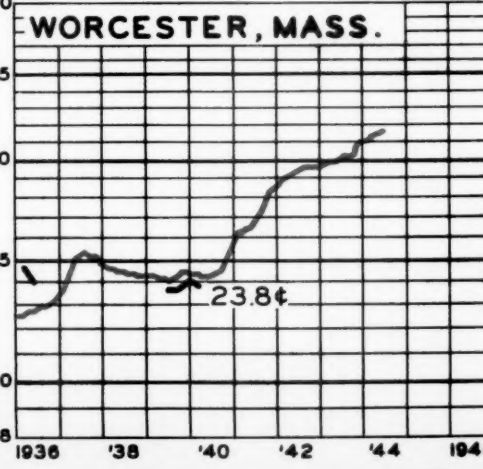
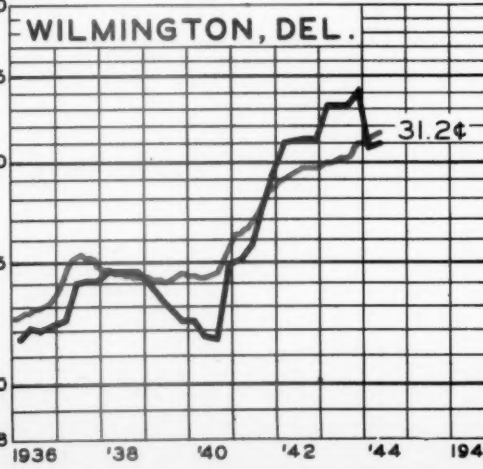
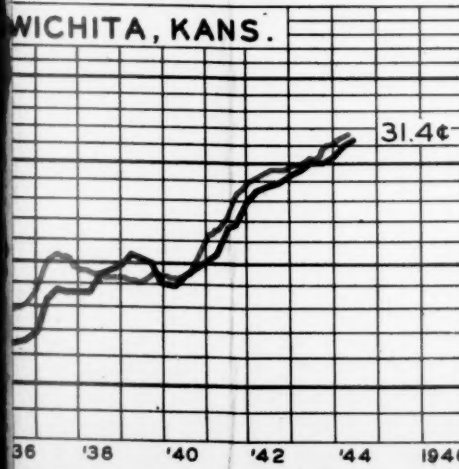
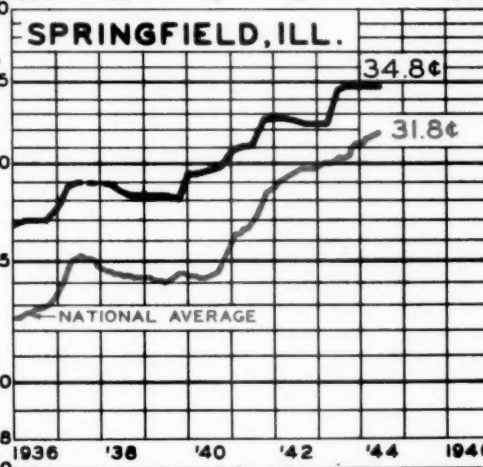
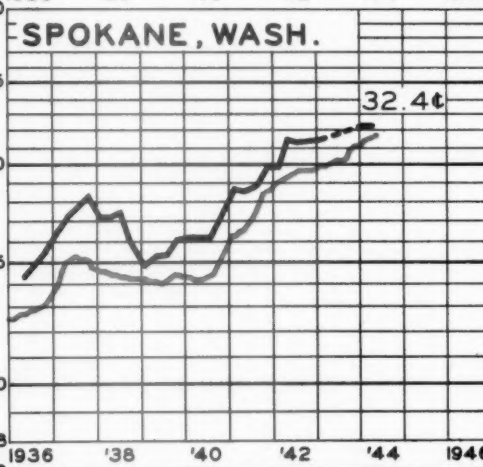
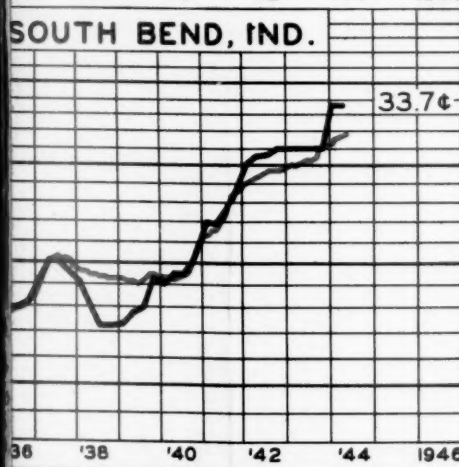
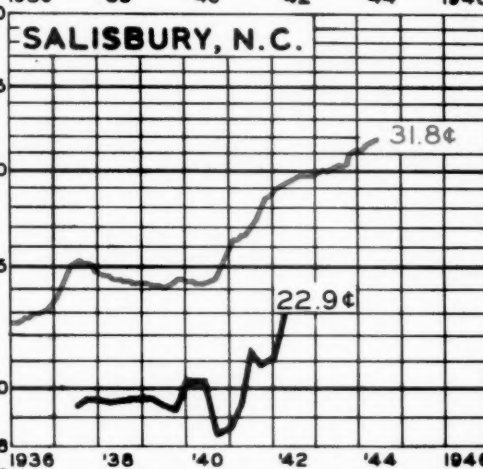
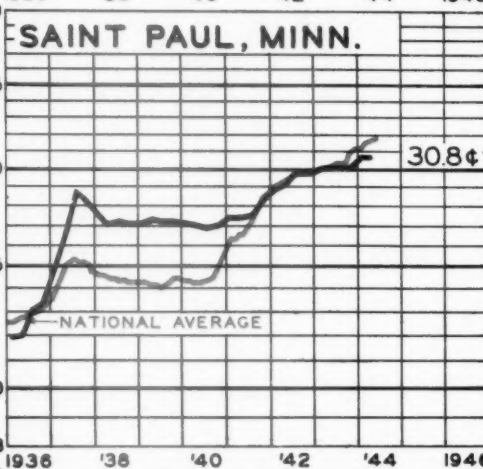
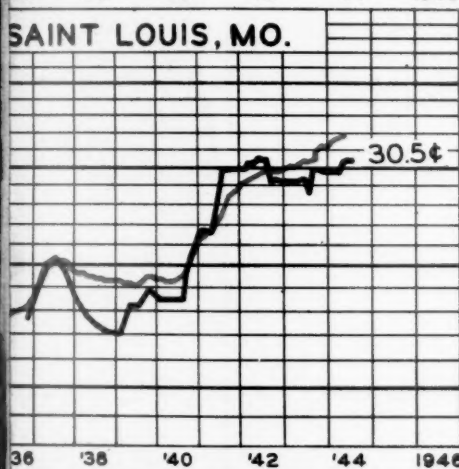
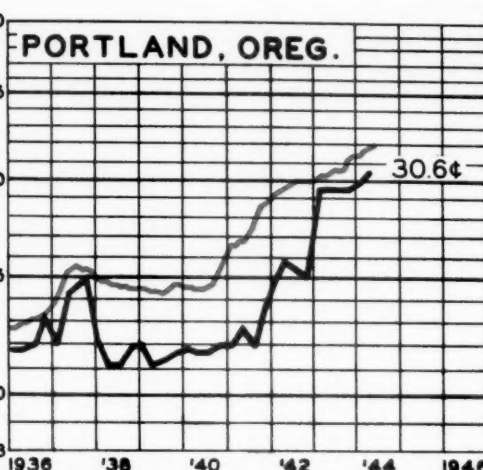
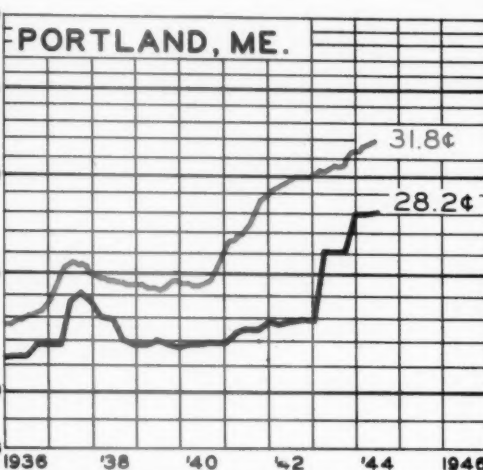
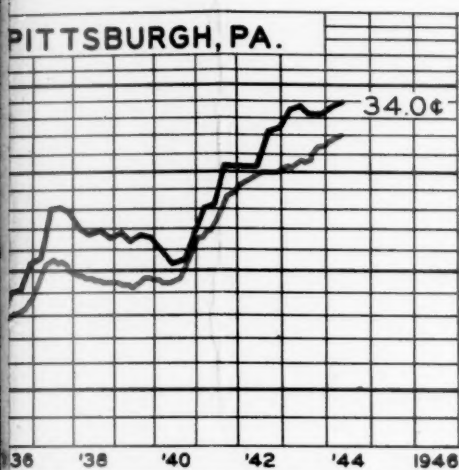


CONSTRUCTION COSTS PER CUBIC FOOT IN

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OT IN 80 CITIES



APARTMENT BONDS RISING RAPIDLY

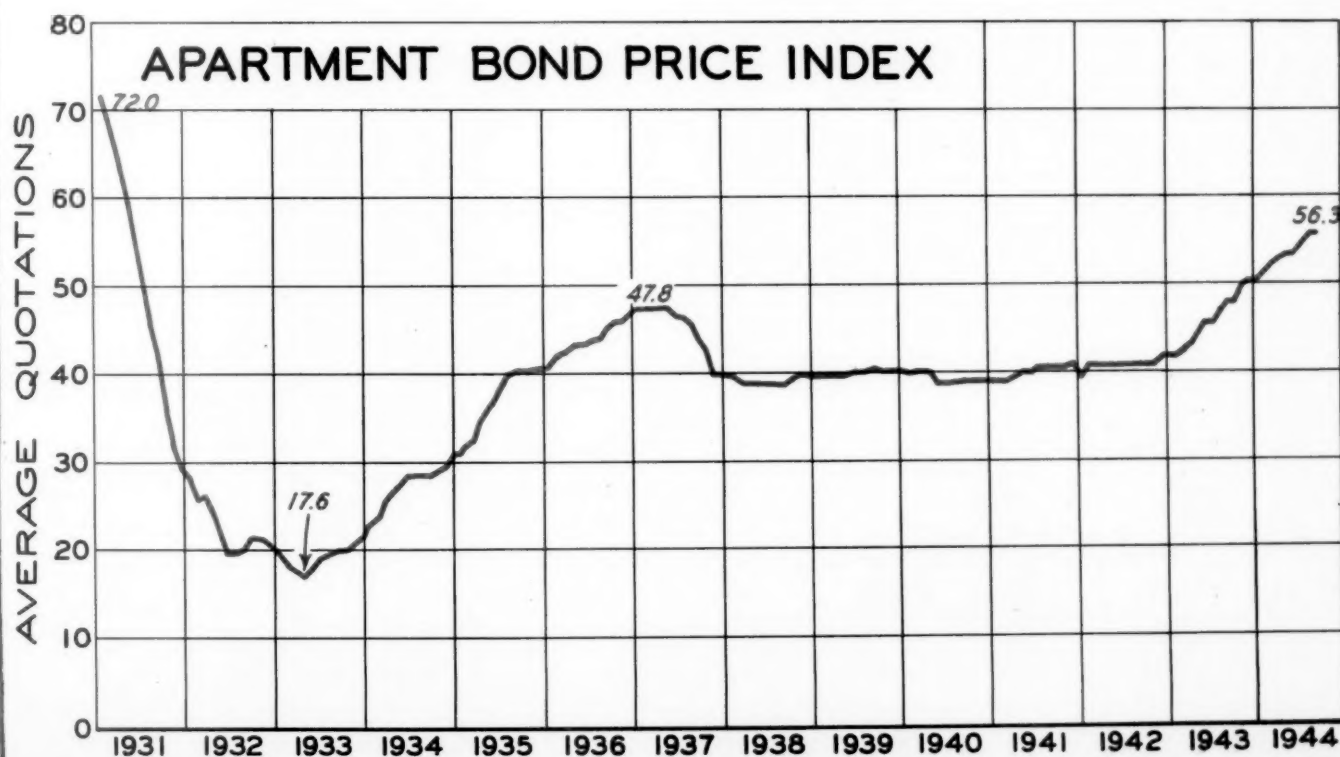
THE index on Apartment Bond Prices, given in table form and charted below, attempts to measure prices since 1931. It was found impossible to carry the index back further as in most cases, prior to 1931, the market for real estate bonds was artificially supported by the underwriting house regardless of the condition of the individual property. The declines in all issues came at the time when the underwriters stopped supporting the market.

The 25 issues selected for this index cover properties in 14 cities. These particular issues were selected because they are sufficiently active to secure regular quotations. Issues with complicated reorganization plans have been avoided.

Apartment bonds have increased $8\frac{1}{2}\%$ in price since the first of the year. During 1943 they increased by 19.8% , giving a total rise since the beginning of 1943 of $32\frac{1}{2}\%$. They are now 220% above the low of 1933.

INDEX OF APARTMENT BOND PRICES

	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944
1	72.0	28.0	19.8	23.1	31.7	41.4	47.8	40.2	40.2	40.6	39.8	41.5	42.5	51.9
2	69.1	26.3	18.6	24.0	32.7	42.6	47.8	40.2	40.2	41.0	39.8	41.5	43.1	53.0
3	66.3	26.8	18.0	26.1	33.7	43.0	47.8	39.4	40.2	41.0	40.0	41.5	43.6	53.5
4	63.6	24.7	17.6	26.9	35.0	43.4	47.8	39.4	40.2	41.0	40.8	41.5	44.9	54.0
5	59.2	22.2	18.0	28.2	36.8	43.8	47.8	39.4	40.2	39.4	40.8	41.5	46.2	54.0
6	54.4	20.0	19.6	29.0	38.7	43.8	46.9	39.4	41.0	37.6	41.2	41.5	46.2	55.1
7	50.1	20.0	20.0	29.0	39.5	44.2	46.9	39.4	41.0	38.2	41.2	41.5	47.4	56.3
8	45.6	20.6	20.2	29.0	40.6	44.6	46.4	39.4	41.0	39.8	41.4	41.5	48.4	56.3
9	41.5	22.0	20.8	29.0	41.0	45.5	44.5	39.4	41.4	39.8	41.4	41.5	48.4	
10	36.5	22.0	20.8	29.3	41.0	46.4	43.2	40.2	41.0	39.8	41.4	41.7	50.4	
11	32.1	21.7	21.6	29.9	41.0	46.4	40.6	40.6	41.0	39.8	41.8	42.5	50.9	
12	29.2	20.8	22.0	31.4	41.4	47.3	40.6	40.2	41.0	39.8	40.5	42.5	50.9	



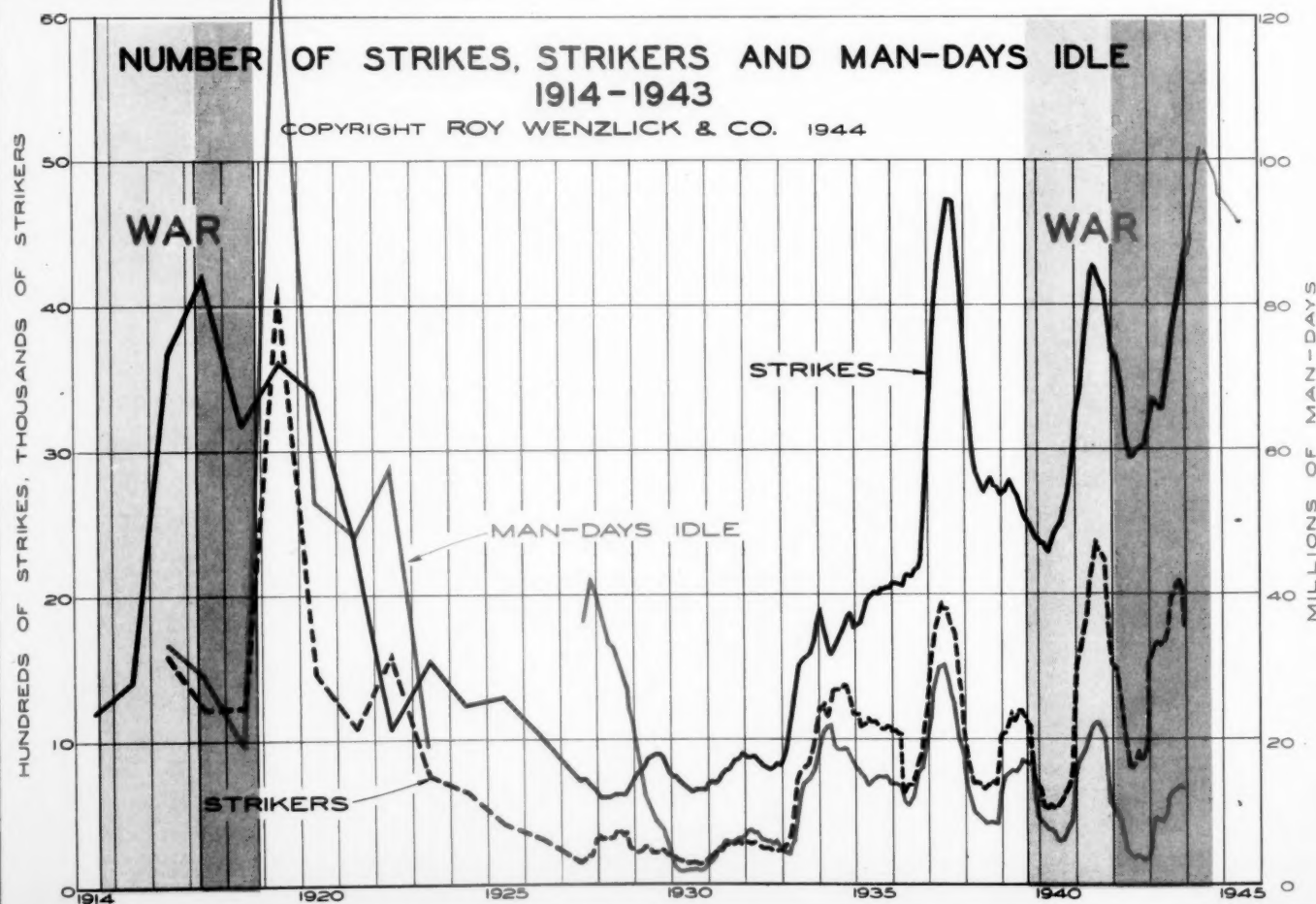
STRIKES AND LABOR TROUBLES WILL INCREASE RAPIDLY

THE chart below shows the course of strikes and the number of strikers and of man-days idle from 1914 through 1943. These figures are annual figures through 1927, and moving annual totals centered on the seventh month for the balance of the period.

It will be noticed that with the United States entry into the war, the number of strikes declined. However, the number of strikers, after declining for a short time, increased as did the number of man-days idle. Labor leaders have been unable to enforce the no-strike pledge in a large number of cases.

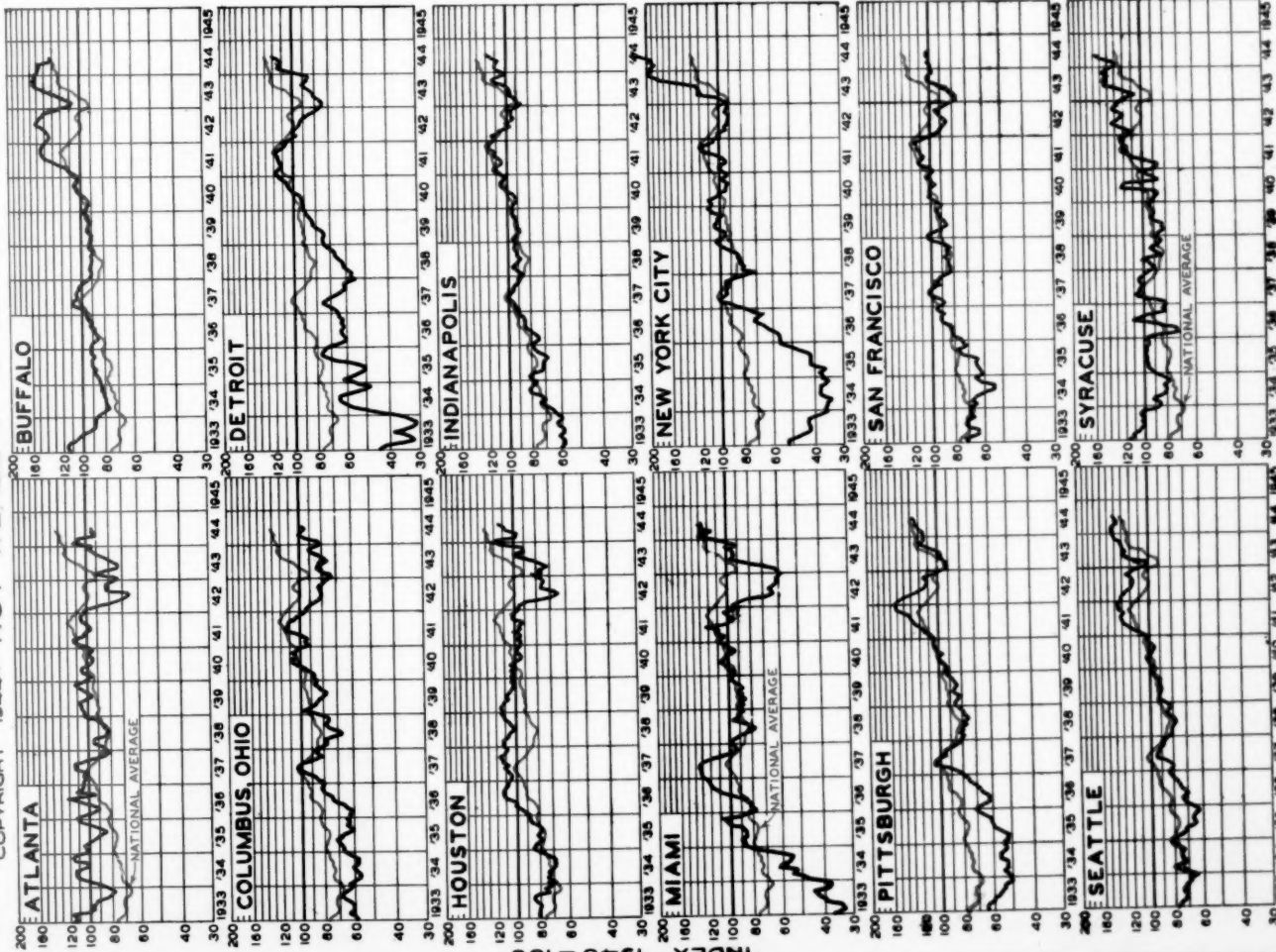
This chart shows quite clearly the tremendous epidemic of strikes which followed the First World War. It will be noticed that almost 136 million man-days were lost during 1919 due to labor trouble. This peak which followed the conclusion of the last war was the result of a rising cost of living during the post-war period with the release of patriotic restraints on strikes as soon as the Armistice was signed.

The same situation will probably repeat again as soon as the war is over in Europe. The cost of living has advanced but due to increased wage rates per hour and a great deal of overtime, the weekly take-home pay has advanced by a greater percentage than the cost of living. With the cancellation of war contracts, overtime will disappear and many persons may go on a short work week. It is never easy to lower one's standard of living, and considerable pressure will be used in an effort to secure an increase in the rate per hour to offset the loss in overtime. In most cases labor will not be successful in this attempt, although we anticipate that after the initial dislocation of re-conversion wage rates will gradually climb to a new high.



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